

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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E.O. 11652: N/A
TAGS: EFIN, BR
SUBJECT: SINOUSEN PROJECTS SHARP INCREASE IN FOREIGN DEBT
AND EXCHANGE RESERVES

REFS: (A) BRASILIA 4881
(B) BRASILIA 6139
(C) BRASILIA 6224

1. FINANCE MINISTER SIMOUSEN COMMENTED PUBLICLY ON FRIDAY, AUGUST 11, THAT BRAZIL'S GROSS FOREIGN DEBT MAY REACH \$40 BILLION BY THE END OF 1978. HE BELIEVES GROSS FOREIGN EXCHANGE RESERVES MAY AMOUNT TO \$11 BILLION, THUS RESULTING IN NET OR LIQUID FOREIGN DEBT OF \$29 BILLION (ON THURSDAY, AUGUST 10, HE MENTIONED RESERVES OF \$10 BILLION AND NET DEBT OF \$30 BILLION).

2. SIMOUSEN STRESSED THE CONCEPT OF NET DEBT AND THE DESIRABILITY OF A HIGH LEVEL OF GROSS RESERVES. PRESS REACTION WAS MIXED, WITH COMMENTS RANGING FROM QUOTE BAD NEWS UNQUOTE
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AND QUOTE ALARMING END QUOTE TO TACIT AGREEMENT WITH THE MINISTER'S ARGUMENT THAT IT IS IMPORTANT THAT THE NEW GOVERNMENT TAKE OFFICE IN 1979 WITH A CONFORTABLY HIGH LEVEL OF RESERVES. THE JORNAL DO BRASIL AND OTHER PAPERS NOTED THAT 1979-80 WILL BE CRITICAL YEARS IN AMORTIZING THE DEBT CONTRACTED IN THE YEARS IMMEDIATELY AFTER THE PETROLEUM CRISIS OF 1979. ALSO NOTED WERE THE IMPLIED 25 PERCENT INCREASE IN

GROSS DEBT IN 1978, 17 TO 21 PERCENT INCREASE IN NET DEBT (DEPENDING ON THE PROJECTED LEVEL - \$29 OR \$30 BILLION) AND THE IMPLIED INCREASE IN THE RATIO OF NET DEBT TO EXPORTS FROM ABOUT 2:1 IN 1977 TO 2.5:1 IN 1978.

3. U.S. BANK REPRESENTATIVES HAVE NOT EXPRESSED ANY PARTICULAR CONCERN WITH SIMOUSEN'S COMMENTS ON FOREIGN DEBT. IN CONVERSATIONS WITH FINATT, THEY INDICATED LITTLE SURPRISE WITH THE FIGURES IN VIEW OF THEIR BANK'S VERY ACTIVE LENDING IN THE FIRST HALF OF 1978. SEVERAL REPRESENTATIVES OF REGIONAL BANKS (AND ONE LARGE NEW YORK BANK) SUGGESTED THAT THEIR OUTSTANDING LOANS ARE NEAR OR HAVE REACHED THEIR COUNTRY LIMITS. THESE REPRESENTATIVES SAID THEY EXPECT SOME SLOWDOWN IN THE APPROVAL OF NEW LOANS IN THE SECOND HALF OF THE YEAR. HOWEVER, ALL THE REPS CONTINUED TO EXPRESS CONFIDENCE IN BRAZIL'S FINANCIAL LEADERSHIP AND CREDITWORTHINESS; THEY REFERRED TO GREATLY INCREASED LENDING ACTIVITIES IN BRAZIL BY GERMAN AND JAPANESE BANKS; AND THE LARGE U.S. BANKS MADE CLEAR THEY ALSO ARE STILL ACTIVELY SEEKING BUSINESS IN BRAZIL. THERE WAS SOME CONCERN WITH THE INCREASE OF THE RATIO OF GROSS DEBT SERVICE TO MERCHANDISE EXPORTS FROM 54 PERCENT IN 1977 TO PERHAPS 65 PERCENT IN 1978. HOWEVER, THE BANKERS CONTINUED TO REFER TO BAD LUCK AND WEATHER IN 1978 AND TO EXPRESS CONFIDENCE IN A RECOVERY OF EXPORT GROWTH IN 1979.

4. COMMENT - WHILE MINISTER SIMOUSEN'S COMMENTS DO NOT CON-
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STITUTE OFFICIAL PROJECTIONS NOR GOALS, THEY CLEARLY REFLECT THE CONSIDERABLE MAGNITUDE OF CAPITAL INFLOWS IN 1978 TO DATE AND THE EXPECTATION OF CONTINUED NET FOREIGN RESERVE ACCULULATION THROUGH THE END OF THE YEAR. THE IMPLIED \$3 TO 4 BILLION INCREASE IN GROSS RESERVES (I.E. BORROWING IN EXCESS OF BALANCE OF PAYMENTS FINANCING NEEDS) IS ESSENTIALLY THE RESULT OF AGGRESSIVE LENDING BY FOREIGN BANKS AND GOB EFFORTS TO TAKE ADVANTAGE OF PREVAILING FAVORABLE MARKET CONDITIONS AND IMPROVED BORROWING CONDITIONS. A \$120 MILLION LOAN FOR TELEBRAS ACTUALLY CIRCUMVENTED GOB INTENTIONS TO CONSTRAIN INVESTMENT SPENDING IN TELECOMMUNICATIONS BY INVOLVING FOREIGN CREDITS UNDER RESOLUTION 63 (FOR RELENDING BY LOCAL BANKS INSTEAD OF A DIRECT FOREIGN LOAN TO TELEBRAS). IN GENERAL, HOWEVER, THE GOB ITSELF HAS PUSHED AHEAD WITH NEW BORROWING. LOANS RECENTLY CONCLUDED OR REPORTEDLY NEAR SIGNING INCLUDE THREE THAT TOGETHER EXCEED \$1 BILLION: \$200 MILLION FOR DNER (HIGHWAYS) LED BY BANK OF AMERICA; \$200 MILLION FOR NUCLEBRAS FROM SEVERAL GERMAN BANKS; AND \$700 FOR SIDERBRAS (TUBARAO) FROM JAPANESE BANKS. THE LATTER REPORTEDLY WILL CONSISTS OF THREE SEGMENTS OF 12 YEARS MATURITY AT 1 1/4 PERCENT OVER LIBOR AND 13 YEARS AND 14 YEARS MATURITY AT 1 3/8 PERCENT SPREAD. THESE PUBLIC SECTOR BORROWINGS REFLECT LEGITIMATE DEVELOPMENT

PROJECT NEEDS. THEY ALSO ARE CONSISTENT WITH MINISTER
SIMOUSEN'S COMMENTS ON POSSIBLE YEAR-END FOREIGN DEBT AND
RESERVES. FINALLY, THEY APPEAR TO REFLECT EXPECTATIONS BY
THE GOB THAT MARKET CONDITIONS MAY NOT BE SO FAVORABLE IN
1979 AND THAT BRAZIL SHOULD CONTINUE TO CONTRACT NEW LOANS
AND INCREASE GROSS RESERVES IN THE REMAINING MONTHS OF 1978.
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